

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

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FISCAL IMPACT STATEMENT

LS 7615

BILL NUMBER: HB 1551

DATE PREPARED: Jan 7, 2001

BILL AMENDED:

SUBJECT: Inventory Tax Credits.

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FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: This bill provides a credit against a taxpayer's inventory tax liability. It provides that the credit is paid from the state General Fund. The bill specifies that the credit is 25% of net inventory tax liability in 2002 and increases to 100% of net inventory tax liability in 2005 and thereafter.

Effective Date: July 1, 2001.

Explanation of State Expenditures: Beginning in CY 2002, this bill would phase in a credit against the liability for property tax on inventory. The credit would be paid from the state General Fund. The estimated cost of the credit is \$60 M in FY 2002 and \$132 to \$164 M in FY 2003. (Estimates for years beyond FY 2003 are provided below.)

Estimation Issues: In estimating the impact of this bill, special attention was given to the impending real property reassessment. The final rules on real property assessment will have a direct impact on property tax rates and the amount of the property tax levy that will be attributed to inventory. Reassessment will shift some of the property tax burden from personal property owners to real property owners. Due to the uncertainty surrounding the next reassessment and the amount of the shifts, this analysis projects the cost of the credit within a range, using a small shift and a large shift. The smaller total assessed value increase of 25% was based on previous Indiana reassessments while the larger total assessed value increase of 80% was based on the estimated impact of reassessing property using a market value approach. It was also assumed that the next reassessment will apply to property assessed in 2002 with taxes first paid in 2003 as mandated in the latest order from the Indiana Tax Court.

Data: According to the State Tax Board's Property Tax Analysis for various years, the net property tax on inventory equaled \$402 M in CY 1999. The 1998 pay 1999 inventory assessed value was \$4.5 B and has grown at an average annual rate of 4.9% over the last five years. The statewide net average property tax rate was \$8.5549 per \$100 AV in CY 1999 and \$8.6955 per \$100 AV in CY 2000.

Fiscal Impact: Future inventory assessed values were projected based on historical data and were then reduced to account for credits. Future average net property tax rates were also estimated. Based on estimates of future total tax levies and total assessed values, it is estimated that the statewide average net tax rate will grow at a rate of about 2% per year in non-reassessment years. An estimate of the future net property tax on inventory was then computed by multiplying the estimated net assessed value of inventory by the estimated net average tax rates.

The applied percentages and estimated statewide total of tax credits under this proposal are identified below along with the cost by fiscal year:

Property Tax Year	% Credit	Estimated Credit	State Fiscal Year	State G.F. Fiscal Year Cost
CY 2002	25%	\$120 M	FY 2002	\$60 M
CY 2003	50%	\$144 M - \$208 M	FY 2003	\$132 M - \$164 M
CY 2004	75%	\$231 M - \$333 M	FY 2004	\$188 M - \$270 M
CY 2005	100%	\$329 M - \$474 M	FY 2005	\$280 M - \$403 M
CY 2006	100%	\$336 M - \$483 M	FY 2006	\$333 M - \$478 M

Although this analysis assumes that reassessment will be effective for property taxes paid in 2003, further legal action could delay the effective date. For this reason, the cost of the credit was also estimated assuming that reassessment would not take place. Without reassessment, the cost of the credit under this bill could be as high as \$609 M by FY 2006.

Based on the estimated growth rates of inventory assessed value and net property tax rates, the cost of the credit under both the "2003 reassessment" and the "no reassessment" assumptions is estimated to grow at about 6% to 7% per year after FY 2006.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: This bill would not affect local revenues.

State Agencies Affected: State Board of Tax Commissioners; Auditor of State.

Local Agencies Affected: County auditors.

Information Sources: State Board of Tax Commissioners, Property Tax Analysis, various years; Local Government Database.